

Report of the auditor-general to the Northern Cape provincial legislature and the council on Khai-Ma Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Khai-Ma Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Khai-Ma Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 30 June 2015 in the financial statements of Khai-Ma Local Municipality at, and for the year ended, 30 June 2014

Financial sustainability

9. The statement of financial position indicates that the Khai-Ma Local Municipality current liabilities exceeded its current assets by R10 699 921. These conditions, along with other matters as set forth in the note 55, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Material losses

10. As disclosed in note 45.8 to the financial statements, material losses to the amount of R1 460 833 were incurred as a result of electricity and water distribution losses.

Additional matters

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

12. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

13. In terms of section 125(2) (e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

15. The annual performance report was not presented for auditing and consequently my findings below are limited to the procedures performed on the strategic planning and performance management documents for the following selected development objectives:
 - Basic service delivery indicators: Key Performance Indicators (KPI): 16, 31, 38, 40-42, 85, 161-162, 164-165, 170, 172, 176, 179, 180-187, 189-190, 192-193 and 195 as included in the Service Delivery and Budget Implementation Plan (SDBIP) was selected.
16. I assessed the information to determine whether the performance indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
17. The material findings in respect of the selected objectives are as follows:

Basic service delivery indicators

Usefulness of performance information

18. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 80% (>20%) of the indicators were not well defined.
19. Performance targets should be specific in clearly identifying the nature and required level of performance as required by the FMPPI. A total of 24% (>20%) of the targets were not specific.
20. Performance targets should be measurable as required by the FMPPI. I could not measure the required performance for 100% (>20%) of the targets.
21. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 100% (>20%) of the indicators were not verifiable.
22. This was because management was not aware of the requirements of the FMPPI and due to a lack of proper systems and processes for performance information.

Compliance with legislation

23. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

24. The municipality did not establish a performance management system, as required by section 38(a) of the Municipal Systems Act.
25. The performance of the municipality were not assessed during the first half of the financial year, as required by section 72(1)(a)(ii) of the MFMA.
26. The municipality did not give effect to its integrated development plan and conduct its affairs in a manner which was consistent with its integrated development plan as required by section 36 of the MSA, section 21(2)(a) of the MFMA and Municipal planning and performance management regulation 6.
27. The KPIs set by the municipality did not include indicators on percentage of households with access to basic level of water, sanitation and electricity were not set by the municipality as required by section 43(2) of the MSA and the Municipal planning and performance management regulation 10(a).
28. The service delivery and budget implementation plan (SDBIP) for implementing the municipality's delivery of municipal services did not indicate projections for each month of the revenue to be collected, by source and the operational and capital expenditure, by vote.
29. The performance management system and related controls were not in place as it did not describe and represent the processes of performance planning, monitoring, measurement, review, reporting, improvement and how it is conducted, organised and managed, including determining the roles of the different role-players, as required by sections 38 of the MSA and regulation 7 of the Municipal planning and performance management regulations.
30. The annual performance agreements for the municipal manager and all senior managers are not linked to the measurable performance objectives approved with the budget and to the service delivery budget implementation plan as required in terms of section 53(1)(c)(iii) of the MFMA and section 57(1)(b) of the MSA.

Financial statements, performance and annual reports

31. The annual performance report was not prepared for the financial period under review, as required by section 46 of the MSA.
32. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified audit opinion.

33. The oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2014/15 annual report was tabled, as required by section 129(1) of the Municipal Finance Management Act.

Audit committees

34. An audit committee was not in place, as required by section 166(1) of the MFMA.
35. A performance audit committee was not in place and the audit committee was not used to fulfil the performance audit committee function, as required by Municipal planning and performance management regulation 14(2)(a).

Internal audit

36. An internal audit unit was not established, as required by section 165(1) of the MFMA.

Procurement and contract management

37. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2) (b) of the MFMA.
38. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2) (c) of the MFMA.

Human resource management and compensation

39. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of MSA.
40. The competencies of the senior managers were not assessed in a timely manner in order to identify and address gaps in competency levels as required by Municipal Regulations on Minimum Competency Levels 13.
41. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Regulations on Minimum Competency Levels reg14(2)(a).
42. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Regulations on Minimum Competency Levels reg14(2)(b) .
43. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff in contravention of MSA sec 67(d).
44. Senior managers did not sign performance agreements, as required by section 57(2)(a) of the Municipal Systems Act.

Expenditure management

45. Money owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA.

46. Reasonable steps were not taken to prevent unauthorised expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Conditional grants received

47. Municipal Systems Improvement Grant (MSIG) funds were retained or rollover to the next financial year without seeking the approval of the National Treasury, as required by sections 22(1) of the DoRA.

Revenue management

48. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of MFMA.

Asset and liability management

49. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

50. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.
51. Authorisation of unauthorised expenditure was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.

Internal control

52. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

53. The Mayor did not develop and submit for adoption by the council, a performance management system to report on service delivery. Leadership did not hold staff of the municipality accountable due to the performance system not being implemented
54. During the financial year under review, leadership did not take timeous and adequate action to address weaknesses in the finance and SCM directorates which resulted in non-compliance with applicable legislation and gave rise to unauthorised and fruitless and wasteful expenditure.
55. The leadership did not ensure adherence to SCM policy at the municipality, which resulted in processes not preventing material non-compliance.

56. The accounting officer did not communicate the commitment to quality in preparing the annual financial statements.

Financial and performance management

57. During the financial year under review, management also did not ensure that all transactions and records were internally checked to detect and correct errors in the financial records.
58. During the year under review, the accounting officer did not regularly review and monitor management's compliance with all laws and regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted that could have been prevented.
59. The municipality did not have a delegated employee to review and monitor compliance with applicable laws and regulations. There are deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations and performance information.
60. Management did not follow up on the prior audit findings which resulted in the municipality not submitting an annual performance report for the current and prior financial year.
61. Management did not review the financial statements, to ensure the achievement of fair presentation; this resulted in material amendments to the financial statements.
62. Records management and maintenance disciplines should be refined and included in the daily key controls and reviewed and monitored by the appropriate level of management.

Governance

63. Management did not review or monitor risks identified. In addition no risk assessment was performed relating to the IT environment.
64. The internal audit unit did not function for the entire financial year. Internal audit reports were not available; consequently management could not implement or address findings raised by the internal audit unit.

65. Prior years audit finding was not address by management as the council did not establish an audit committee as required by the MFMA.

Auditor - General

Kimberley

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

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